British Columbia Milk Marketing Board

Annual Report for the 2005/2006 Dairy Year

Seventeenth Annual Report July 31, 2006

2007-01497/

B.C. Milk Marketing Board

2006 Annual General Meeting

Chairman	Blaine Gorrell
Vice-Chairman	Ben Cuthbert
Secretary-Treasurer	Ben Janzen
Board Member	Debbie Aarts
Board Member	John Pruim
Board Member	Gerry Zonneveld
Milk Industry Advisory Committee Chairman	Gordon Souter
Transportation Advisory Committee Chairman	John Pruim
Audit Committee Chairman	Len Bouwman
General Manager	Ken McCormack
Assistant General Manager	Jim Byrne
Controller	Robert Delage
Transportation & Logistics Manager	Vacant
Transportation Coordinator	Gary Broerken
Transportation Coordinator	Kelly Harris
Policy Analyst	Zahra Abdalla
Communications Officer	Scott Miles
Finance Officer	Barbara Pacholko
Quota Officer	Jennifer Lavoie
Milk Pay Officer	Sandra Livingston
Receptionist	Lori Sharpe
Financial Institution	Bank of Montreal
Auditors	KPMG LLP Chilliwack
Vendor Auditors	KPMG LLP Chilliwack
Legal Counsel	Macaulay McColl

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British Columbia Milk Marketing Board
Seventeenth Annual General Meeting
Wednesday, November 15, 2006

Ramada Inn and Conference Centre
36035 North Parallel Road
Abbotsford, British Columbia

Agenda

Call to Order	10:00 A.M.
Reading of the Notice of Meeting	Blaine Gorrell
Approval of the Minutes of the Sixteenth AGM	Ben Janzen
Business Arising from the Minutes	Blaine Gorrell
Chairman's Statement	Blaine Gorrell
General Manager's Report	Ken McCormack
Report of the Audit Committee	Len Bouwman
Auditors' Report	KPMG
Financial Statements	Ben Janzen
Appointment of Auditor	Len Bouwman
Approval of Members' Remuneration	Gay Hahn
Review of Statistical Information	Blaine Gorrell
Report on Legal Issues	Blaine Gorrell
New Business	Blaine Gorrell
Adjournment	12:00 Noon

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Chairman's Statement

For the British Columbia Milk Marketing Board, the 2005/2006 dairy year was extremely active. Provincial matters such as transitioning to a new transportation system and the British Columbia Farm Industry Review Board's review of specialty production and new entrant programs continued to be the main issues attended to by the Board. National and Western Milk Pool issues, concerning among other things, allocation and pricing, also demanded greater attention.

The intent and ultimate effect of the new milk transportation system in British Columbia is to have greater efficiency and effectiveness. During this past year, the Board completed the bid tendering process, awarded the business to the five transporters selected, successfully dealt with an appeal to the British Columbia Farm Industry Review Board from Teamsters Union Local 464, and worked closely with transporters and processors to begin transitioning to the new system. While implementation of the new transportation system has progressed well to date, the transition has faced numerous challenges. The Board and staff continue to work with our partners to deal with all issues as they arise and we thank the producers for their continued patience.

In January 2005, the Minister of Agriculture, Food and Fisheries released a policy framework based on the "Recommendations for Managing Specialty Agri-Food Products in B.C.'s Supply Managed System" prepared by George Leroux. Those who have been following this initiative will be familiar with the consultation process and the correspondence back and forth between the Board and the British Columbia Farm Industry Review Board. After the conclusion of the 2004/2005 dairy year, the British Columbia Farm Industry Review Board released its "Policy, Analysis, Principles and Directions" paper for specialty production and new entrant programs in British Columbia. The Board submitted its draft Consolidated Order on January 31, 2006 that incorporated revised policies for specialty production and niche markets. The British Columbia Farm Industry Review Board provided its final directions on July 19, 2006. The revised Consolidated Order is expected to be published in November 2006.

The Board continued this past year to try to address a variety of outstanding issues with our provincial counterparts across Canada. The key issue for British Columbia in the Western Milk Pool remains the determination of Market Sharing Quota (MSQ) on a 10:90 basis that recognizes population growth among the signatory provinces. The Board continues to engage in discussions in an effort to achieve consensus. At the national level, the Canadian Milk Supply Management Committee met to address issues such as national MSQ, impacts of World Trade Organization discussions on the Canadian dairy industry, concerns regarding imports of butter oil sugar blends displacing Canadian dairy ingredients, harmonization of auditing procedures, and differences in industrial milk class pricing and milk classification as it relates to skim-off calculations.

Developments in the British Columbia dairy industry during the 2005/2006 dairy year resulted in seven appeals addressed by the British Columbia Farm Industry Review Board. Three appeals were filed in response to the outcome of the tendering process for the Board's Transportation Plan. One appeal was filed by a producer association dissatisfied by the Board's decision not to

implement a containment policy for freight costs, and another appeal was filed in response to a Board decision to cancel a producer's licence and Graduated Entry Program quota. The last two appeals were submitted by producers that received notices of assessment for antibiotic positive shipments. The Board was successful in defending its position in each of the appeals that resulted in a panel decision from the British Columbia Farm Industry Review Board.

The British Columbia Milk Marketing Board increased in size to six members in December 2005 with the appointment of Gerry Zonneveld by the Milk Industry Advisory Committee. Mr. Zonneveld has over forty years of experience in the dairy industry and is a welcome addition to the Board. An election was held last fall for two Board Member positions. Mr. Ben Cuthbert was re-elected and the Board welcomed Mr. John Pruim who replaced Mr. Cornelis Klop for the final Board position. I would like to take this opportunity to thank Mr. Klop for his dedicated service to the dairy industry in British Columbia.

The Board would like to thank the British Columbia Dairy Council, the British Columbia Milk Producers Association and the regional dairy organizations for their continued support. In addition, the contributions of the Milk Industry Advisory Committee, the Transportation Advisory Committee, the Butterfat Working Group, and the Audit Committee have helped guide the Board's decisions on pricing and supply, transportation, production and administrative matters respectively.

In conclusion, I would like to thank all producers, processors and transporters who have worked beside us this past dairy year to address the many challenges that we faced. It is only through partnership that our dairy industry will be able to continue to grow and be profitable. The next dairy year promises to hold many more challenges and opportunities and I look forward to continuing to work with all of our partners and stakeholders in responding to the needs of the dairy industry.

Respectfully submitted,

Blaine Gorrell
Chairman

General Manager's Report

Legislative and regulatory compliance and governance of the British Columbia Milk Marketing Board are the responsibilities of the Chairman and Board Members as supported by staff. Regulatory obligations are met through the Board, the Milk Industry Advisory Committee, the Audit Committee and the holding of the Annual General Meeting. Issues of interest to dairy industry stakeholders are addressed by way of standing committees and working groups.

As part of its regular consultation practices, the Board holds producer meetings in a number of locations throughout the province during the spring and fall. As well, the Board regularly meets with the British Columbia Dairy Council and the British Columbia Milk Producers Association. These organizations are the respective advocacy groups for British Columbia processors and producers. The Board periodically establishes working groups that are composed of appropriate combinations of producer, processor, transporter and government stakeholders to investigate certain issues and make non-binding recommendations. In aggregate, the consultation process permits the examination of Board regulation and policy, and provides for the opportunity to obtain input from dairy industry stakeholders.

Responsibility for daily operations resides with the General Manager and eleven employees. Regulatory and administrative duties are performed through the following divisions:

- Board Governance, Communications and Human Resources
- Finance, Administration and Information Technology
- Milk Order and Transportation

Not to the exclusion of others, the duties and responsibilities of the Board are to:

- maintain a register of licensed producers;
- license all producers, vendors, producer vendors and milk transporters;
- allot milk quota to licensed producers;
- serve as the registrar of milk quota and administer the transfer of quota among producers;
- administer timely changes to published milk prices;
- perform the monthly producer equalization pool and remit advance and final producer payments that include the milk quality bonus when applicable;
- administer third-party auditing of vendors;
- manage the activity of milk pick-up at farms and delivery to vendors;
- administer the collection of levies from producers as required by provincial statute and remit said funds to the British Columbia Dairy Industry Development Council;
- prepare and disseminate accurate and timely industry information through established communication devices including newsletters, brochures, web sites and broadcast e-mail;
- liaise with government, British Columbia dairy and agriculture organizations, and other milk regulatory agencies outside of British Columbia; and
- provide secretariat support to the Milk Industry Advisory Committee, the Transportation Advisory Committee and those working groups established by the Board.

A list of accomplishments that occurred during the 2005/2006 dairy year is set out below:

- encouraged a provincial solids non fat to butterfat ratio of 2.4379 by incorporating monetary penalties for excess solids non fat;
- complied with the national quota system in January 2006 by meeting the 97% threshold;
- provided a draft Consolidated Order for the management of specialty products and new entrant programs on January 31, 2006;
- conducted a pilot project for enhanced inhibitor testing from January to March 2006;
- disseminated a negative general quota allotment of 114,923 kilograms in March 2006;
- completed the tendering process for the Transportation Plan and facilitated the transition to the new structure;
- responded to seven appeals filed with the British Columbia Farm Industry Review Board;
- continued to provide producers with timely milk component and milk quality data; and
- frequently updated the Board's web site to permit public access to Board publications and password-protected access to individual farm data.

During the reporting period, routine changes to published prices for processor billing were authorized by the Board. There were two increases to Class 1 milk prices during the 2005/2006 dairy year. These increases were based on the Alberta Fluid Milk Price Formula that serves to benchmark British Columbia fluid milk prices.

The overall goal of the Board is to provide accurate and timely administrative services for producers, processors and transporters. Board operations are constantly examined to determine where efficiencies can be achieved and cost savings accomplished.

The dairy industry is as complex as any industry that I have had the privilege of representing. Administering regulation, orders and policy is no small task, particularly during a time of significant change and transition. Each Board staff member performed their responsibilities to the highest standards showing unparalleled commitment and dedication. In closing, it is with great pride that I extend my most sincere appreciation to the staff for their considerable efforts this past year.

Ken W. McCormack
General Manager

Financial Statements of

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Year ended July 31, 2006

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AUDITORS' REPORT TO MEMBERS

We have audited the balance sheet of British Columbia Milk Marketing Board General Fund as at July 31, 2006 and the statements of revenues and expenditures, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the British Columbia Milk Marketing Board General Fund as at July 31, 2006 and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Chilliwack, British Columbia
September 22, 2006

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Balance Sheet

July 31, 2006, with comparative figures for 2005

	2006	2005
Assets		
Current assets:		
Cash	$ 4,840,532	$ 5,042,706
Accounts receivable (Note 3)	5,153,056	2,191,671
Prepaid expenses	18,234	4,771
	10,011,822	7,239,148
Investment (Note 4)	1,099,128	1,106,556
Capital assets (Note 5)	236,697	133,869
	$ 11,347,647	$ 8,479,573
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 276,722	$ 302,378
Fees payable or refundable (Note 6)	434,256	390,023
Unearned fees (Note 7)	7,273,964	4,422,236
Unearned license revenue	127,600	133,200
	8,112,542	5,247,837
Net assets:		
Invested in capital assets	236,697	133,869
Internally restricted	1,843,575	1,843,575
Unrestricted	1,154,833	1,254,292
	3,235,105	3,231,736
Commitment (Note 11)		
Contingent liabilities (Note 12)		
	$ 11,347,647	$ 8,479,573

On behalf of the Board:

Chairman

Secretary-Treasurer

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Statement of Revenues and Expenditures

Year ended July 31, 2006, with comparative figures for 2005

	2006	2005
Revenues:		
Board (Note 8)	$ 1,859,646	$ 1,891,162
Other Agencies (Note 9)	6,457,088	5,866,304
Transportation (Note 10)	16,981,946	16,939,222
Gross revenues before the following	25,298,680	24,696,688
Less:		
Transfers to other agencies (Note 9)	6,457,088	5,866,304
Transportation expenditures (Note 10)	16,981,946	16,939,222
	23,439,034	22,805,526
Net revenues	1,859,646	1,891,162
Interest	305,743	209,386
Special projects expense recovery	25,205	27,094
	2,190,594	2,127,642
Expenditures:		
Amortization	36,887	33,467
Audit Fees - Board	19,307	21,000
Audit Fees - Vendor	171,006	169,990
Board member per diems	197,044	221,413
Committee	4,350	19,125
Consulting and contract wages	46,737	101,929
Data Collection	95,670	95,858
Data Processing	99,857	96,069
General office and administration	297,074	320,643
Legal	63,115	29,956
Milk testing charges	126,693	129,011
Salaries and benefits	725,233	790,552
Special projects	35,544	40,071
Travel	261,280	212,397
	2,179,797	2,281,481
Excess (deficiency) of revenues over expenditures	10,797	(153,839)
Equity loss on investment (Note 4)	(7,428)	(2,498)
Excess (deficiency) of revenues over expenditures	$ 3,369	$ (156,337)

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Statement of Changes in Net Assets

Year ended July 31, 2006, with comparative figures for 2005

	Invested in capital assets	Internally restricted	Unrestricted	2006 Total	2005 Total
Balance, beginning of year	$ 133,869	$ 1,843,575	$ 1,254,292	$ 3,231,736	$ 3,388,073
Excess (deficiency) of revenues over expenditures	(59,174)	-	62,543	3,369	(156,337)
Change in investment in capital assets	162,002	-	(162,002)	-	-
Balance, end of year	$ 236,697	$ 1,843,575	$ 1,154,833	$ 3,235,105	$ 3,231,736

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Statement of Cash Flows

Year ended July 31, 2006, with comparative figures for 2005

	2006	2005
Cash provided by (used in):		
Operating:		
Excess (deficiency) of revenues over expenditures	$ 3,369	$ (156,337)
Items not involving cash:		
Amortization of capital assets	59,174	33,467
Equity loss on investment	7,428	2,498
Net changes in non-cash working capital balances relating to operations:		
Accounts receivable	(2,961,385)	1,837,203
Prepaid expenses	(13,463)	5,612
Accounts payable and accrued liabilities	(25,656)	51,370
Fees payable or refundable	44,233	(22,631)
Unearned fees	2,851,728	1,001,620
Unearned licence revenue	(5,600)	(2,400)
	(40,172)	2,750,402
Investing:		
Purchase of capital assets	(162,002)	(27,965)
Increase (decrease) in cash position	(202,174)	2,722,437
Cash position, beginning of year	5,042,706	2,320,269
Cash position, end of year	$ 4,840,532	$ 5,042,706
Supplementary cash flow information:		
Interest received	$ 144,590	$ 129,706

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Notes to Financial Statements

Year ended July 31, 2006

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1. General:

(a) The British Columbia Milk Marketing Board ("the Board") is a regulatory body which receives its authority under the Natural Products Marketing (B.C.) Act, the British Columbia Milk Marketing Board Regulation, the Milk Industry Act, the Agricultural Products Marketing Act, the British Columbia Milk Order, the Canadian Dairy Commission Act, and the Dairy Products Marketing Regulations. The General Fund includes all statutory activities of the Board with the exception of Milk Pool Equalization Fund which is accounted for as a distinct fund and reported on separately.

Effective October 1, 2001, the Board became the first receiver of raw milk. As a consequence the Board acts as a facilitating intermediary between producers and processors with respect to the transportation and sale of raw milk. Raw milk revenues and expenditures are included in the Milk Pool Equalization Fund.

The Milk Pool Equalization Fund has $438,096,329 in equalization revenue and $438,096,329 in equalization expenditures and $38,797,490 in assets and liabilities to July 31, 2006 which are not included in these financial statements.

(b) The Board remits Equalization payments to the Canadian Dairy Commission ("CDC"). The CDC receives the funds in respect of milk and dairy products in inter-provincial trade and, as agent for the Board, distributes them pursuant to prevailing pooling agreements, and, in respect of milk and dairy products in international export trade, pursuant to the above legislation.

2. Significant accounting policies:

(a) Unearned fees:

Unearned fees consists of:

i) the difference between the world price received by producers and domestic price paid by processors for milk shipments assessed by the Board based on individual producer's market share quota and those computed by the CDC based on the aggregate provincial allotment of quota for the dairy year;

ii) distributions of any surpluses from the marketing operations of the CDC for the year; and

iii) amounts retained by the Board in case of processor default.

The Board exercises discretion over the use of these funds. At the discretion of the Board in any year following the recording of unearned fees, the amounts may be appropriated as revenue or redistributed to producers. Appropriated revenues are recorded as internally restricted funds until utilized by the Board.

2. Significant accounting policies (continued):

(b) Investments:

The Board accounts for its 50% interest in Central Agricultural Facility Ltd. using the equity method. Under the equity method, the investment is recorded at the original cost of the shares plus the Board's share of undistributed earnings since inception. The statement of operations includes the Board's share of investee income or loss for the year.

(c) Capital assets:

Capital assets are recorded at cost.

Amortization of office equipment and data collection equipment has been provided in the accounts on a declining balance basis at an annual rate of 20% calculated on the unamortized balance at the end of the year. Amortization of data collection equipment is included in data collection costs.

(d) Revenue recognition:

The Board recognizes revenue when the service is provided and the customer assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

(e) Employee benefit plans:

The multi-employer plan is accounted for as a defined contribution plan and contributions are expensed as required.

(f) Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. Accounts receivable:

	2006	2005
Milk Pool Equalization Fund	$ 4,516,312	$ 2,096,038
Accounts receivable - trade	636,744	95,633
	$ 5,153,056	$ 2,191,671

4. Investment:

The Board's investment is in a 50% owned subsidiary, Central Agricultural Facility Ltd. ("CAFL"), and includes the following:

	2006	2005
Shares - 50% interest	$ 1	$ 1
Advances without interest or fixed terms of repayment	1,216,251	1,216,251
Equity loss since inception	(117,124)	(109,696)
	$ 1,099,128	$ 1,106,556

CAFL reports its financial activities on a calendar year. Financial statements as at July 31, 2006 are not available. The Board used CAFL's December 31, 2005 financial statements to report its equity interest. There have been no material events in CAFL from December 31, 2005 to July 31, 2006.

4. Investment (continued):

CAFL's condensed financial statements and the Board's 50% share are as follows:

December 31, 2005 Condensed Balance Sheet	100%	50%
Assets:		
Current assets	$ 261,611	$ 130,806
Capital assets	4,911,896	2,455,948
	$ 5,173,507	$ 2,586,754
Liabilities and Shareholders' Deficiency:		
Current liabilities	$ 114,906	$ 57,453
Long-term debt	2,641,479	1,320,740
Due to shareholders	2,651,370	1,325,685
Shareholders' deficiency	(234,248)	(117,124)
	$ 5,173,507	$ 2,586,754

4. Investment (continued):

Year ended December 31, 2005 Condensed Statement of Operations	100%	50%
Revenues	$ 542,234	$ 271,117
Expenses	557,091	278,545
Net loss	$ (14,857)	$ (7,428)

Year ended December 31, 2005 Condensed Statement of Cash Flows	100%	50%
Cash provided by (used in):		
Operations	$ 99,797	$ 49,899
Financing	(63,517)	(31,759)
Investing	(28,156)	(14,078)
Increase in cash position	$ 8,124	$ 4,062

The Board's and CAFL's significant accounting policies are the same or similar except for the following:

CAFL is subject to income taxes.

CAFL uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

5. Capital assets:

	Cost	Accumulated amortization	2006 Net book value	2005 Net book value
Office equipment	$ 363,295	$ 215,747	$ 147,548	$ 133,869
Data collection equipment	111,436	22,287	89,149	-
	$ 474,731	$ 238,034	$ 236,697	$ 133,869

Included in data collection costs is $22,287 in amortization expense for the data collection equipment.

6. Fees payable or refundable:

	2006	2005
Fees payable to producers, processors or third parties:		
Quality bonus fees	$ 297,663	$ 254,444
Marketing costs and losses fees	109,503	95,016
Accrued freight cost adjustments to the Transportation Pool	17,090	30,563
Security deposit payable to vendor	10,000	10,000
	$ 434,256	$ 390,023

7. Unearned fees:

	2006	2005
Balance, beginning of year	$ 4,422,236	$ 3,420,616
Add:		
Over quota - domestic/world price differential	4,541,838	2,541,507
In quota fees charged to producers	1,943,184	347,770
Vendor default levy	63,339	64,476
	10,970,597	6,374,369
Less:		
Over quota- domestic/world price differential paid to producers	3,696,633	1,952,133
	3,696,633	1,952,133
Balance, end of year	$ 7,273,964	$ 4,422,236

The balance of the vendor default levy account at July 31, 2006 was $303,069 (2005 - $239,731).

8. Board fees:

During the year the following fees were assessed by the Board:

	2006	2005
Assessed on producers:		
Administration fees	$ 1,013,421	$ 1,031,608
Licence fees	129,376	133,952
	1,142,797	1,165,560
Assessed on GEP applicants	12,800	8,500
Assessed on processors:		
Administration fees	695,391	707,326
Licence fees	6,458	7,270
	701,849	714,596
Assessed on transporters:		
Licence fees	2,200	2,506
	$ 1,859,646	$ 1,891,162

9. Fees - producers, processors or other agencies:

During the year the following fees were assessed by the Board for remittance to producers, processors or other agencies:

	2006	2005
Assessed on processors for remittance to producers:		
Quality bonus paid to producers	$ 1,140,058	$ 1,174,942
Quality bonus refunded to processors	297,663	254,444
Total quality bonus fees collected	1,437,721	1,429,386
Marketing costs and losses fees paid to producers	1,778,352	1,207,876
Marketing costs and losses fees paid to processors	629,830	589,829
Total marketing costs and losses fees collected	2,408,182	1,797,705
Assessed on processors for remittance to plant of last resort:		
Accommodation fees	1,896,520	1,929,072
Assessed on processors for remittance to B.C. Dairy Council:		
Container recycling fee	714,665	710,141
	$ 6,457,088	$ 5,866,304

10. Transportation:

	2006	2005
Transportation revenue - Producers	$ 16,872,560	$ 16,546,633
Transportation revenue - PLR	95,578	381,513
Handling revenue	13,808	11,076
	$ 16,981,946	$ 16,939,222
Transport haulers	$ 16,599,935	$ 16,444,287
Seal-Tite program	151,171	200,836
Salaries and benefits	206,619	230,520
Travel	4,852	6,700
Rent	26,316	26,316
	16,988,893	16,908,659
Costs recovered from milk pool equalization fund	(6,947)	-
Freight cost adjustments to the Transportation Pool	-	30,563
	$ 16,981,946	$ 16,939,222
Total milk shipments in hectolitres	6,337,088	6,449,228
Average cost per hectolitre	$ 2.68	$ 2.62

11. Commitment:

The Board rents its office premises from CAFL under a sub-lease covering the period May 1, 2003 to April 30, 2007. Lease payments are $11,695 per month effective October 1, 2003.

12. Contingent liabilities:

(a) The Board has provided a $250,000 mortgage guarantee for Central Agricultural Facility Ltd. ("CAFL") for the purchase of land and building in 2003. The current guarantee term expires in March 2007. The mortgage balance in CAFL as at July 31, 2006 is $2,669,793. The mortgage default provisions are non-payment of monthly payments, bankruptcy or insolvency, or CAFL ceasing to carry on business.

(b) The Board and its employees contribute to the Public Service Plan (the plan), a jointly trusteed pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of the assets and administration of benefits. The plan is a multi-employer, contributory pension plan. Basic pension benefits are defined. The plan has approximately 51,000 active and 30,000 retired plan members. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The latest valuation as at March 31, 2005, indicated an unfunded liability of $767 million for basic pension benefits. The next evaluation will be as at March 31, 2008 with results available in 2009. The actuary does not attribute portions of the unfunded liability to individual employers. Contributions to the plan by the Board totalled $63,939 (2005 - $54,089) during the year.

13. Related party transactions:

Included in general office and administration expense is $114,029 (2005 - $114,029) and included in transportation expense is $26,316 (2005 - $26,316) in lease payments to lease facilities from Central Agricultural Facility Ltd. ("CAFL").

The Board is a 50% shareholder in CAFL.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

14. Fair value of financial assets and financial liabilities:

The fair value of the Board's cash, accounts receivable, accounts payable and accrued liabilities and fees payable or refundable approximate their carrying values due to the short term nature of the amounts.

Financial Statements of

BRITISH COLUMBIA MILK MARKETING BOARD

MILK POOL EQUALIZATION FUND

Year ended July 31, 2006

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Internet www.kpmg.ca/enterprise

AUDITORS' REPORT TO MEMBERS

We have audited the balance sheet of British Columbia Milk Marketing Board as at July 31, 2006 and the statement of revenue and expenditures for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the British Columbia Milk Marketing Board Milk Pool Equalization Fund as at July 31, 2006 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Chilliwack, British Columbia
September 22, 2006

BRITISH COLUMBIA MILK MARKETING BOARD

MILK POOL EQUALIZATION FUND

Balance Sheet

July 31, 2006, with comparative figures for 2005

	2006	2005
Assets		
Cash	$ 19,499,294	$ 19,110,807
Accounts receivable	19,298,196	20,453,690
	$ 38,797,490	$ 39,564,497
Liabilities		
Accounts payable (Note 3)	$ 38,627,894	$ 39,394,109
Long-term liabilities (Note 4)	169,596	170,388
	$ 38,797,490	$ 39,564,497

On behalf of the Board:

Chairman

Secretary-Treasurer

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

MILK POOL EQUALIZATION FUND
Statement of Revenue and Expenditures

Year ended July 31, 2006, with comparative figures for 2005

	2006	2005
Revenue:		
Equalization receipts	$ 437,942,904	$ 434,079,039
Interest income	153,425	126,952
	438,096,329	434,205,991
Expenditures:		
Payments to Canadian Dairy Commission:		
P10 and Western Milk Pool equalization	13,157,660	16,069,974
Freight cost adjustments recovered from Transportation Pool	(17,090)	(30,563)
Equalization payments to producers	424,955,759	418,166,580
	438,096,329	434,205,991
Excess of revenue over expenditures	$ -	$ -

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

MILK POOL EQUALIZATION FUND
Notes to Financial Statements

Year ended July 31, 2006

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1. **General:**

The British Columbia Milk Marketing Board ("the Board") is a regulatory body which receives its authority under the Natural Products Marketing (B.C.) Act, the British Columbia Milk Marketing Board Regulation, the Milk Industry Act, the Agricultural Products Marketing Act, the British Columbia Milk Order, the Canadian Dairy Commission Act, and the Dairy Products Marketing Regulations.

The Milk Pool Equalization Fund is the method used by the Board to enable producers to participate in all of the sales in each of the milk classes established by the Board proportionate to the quota allotted to each producer.

Effective March 1, 1997 the four western provinces, British Columbia, Alberta, Saskatchewan and Manitoba and the Canadian Dairy Commission created the Western Milk Pooling Agreement (the "Agreement"). The purpose of the Agreement is to extend the pooling arrangements within each of the provinces so that all producer returns are pooled among producers in all of the western provinces, as if the western provinces constituted a single market.

Effective October 1, 2001, the Board became the first receiver of raw milk. As a consequence the Board acts as a facilitating intermediary between producers and processors with respect to the transportation and sale of raw milk.

These statements do not include the general fund operations of the Board which are reported separately.

2. **Significant accounting policy:**

Revenue recognition:

The Board recognizes revenue when the service is provided and the customer assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

3. **Related fund balances:**

Included in accounts payable is an amount of $4,516,312 (2005 - $2,096,038) owing to the Board's General Fund. These amounts represent equalization obligations charged to producers through the Milk Pool Equalization Fund, freight cost adjustments, transportation shortfall charged to the pool, and levies due.

4. Long-term liabilities:

This amount represents an accumulation of the excess of equalization receipts over equalization payments. It is used to ensure adequate funds are available to meet cash flow needs. The Board does not intend to pay this amount within the next year, accordingly it is classified as a long-term accounts payable.

5. Collections for other agencies:

During the year the following fees were collected by the Board for remittance to other agencies:

	2006	2005
Assessed on producers for remittance to Dairy Industry Development Council:		
Fluid milk promotion	$ 4,623,733	$ 4,697,677
DFC Promotion	3,410,277	3,291,309
Association levy	665,058	566,350
Ministry of Agriculture and Land penalties	157,733	102,095
	$ 8,856,801	$ 8,657,431

These fees are not included in Equalization revenues.

6. Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenditures during the reported period. Actual results could differ from those estimates.

7. Statement of cash flow:

A statement of cash flow has not been prepared as the information is readily apparent from the financial statements presented.

8. **Fair value of financial assets and financial liabilities:**

The fair value of the Board's cash, accounts receivable and accounts payable approximate their carrying amounts due to the short term nature of the amounts.

Statistical Overview

On July 31, 2006 there were 619 milk producers in British Columbia. A breakdown of producer populations and quota distribution by region is presented in Table 1 of Appendix A.

Statistical information on milk production, utilization and sales is presented in Tables 2 to 4 in Appendix A. During the 2005/2006 dairy year 633,495,220 litres of milk were produced in British Columbia (see Table 2). Of this total production, 359,502,204 litres were utilized in the Class 1 market (see Table 3 for a breakdown of Class 1 milk sales by product) and 273,993,016 litres were used in the processing of non-fluid dairy products.

Total milk production in British Columbia decreased by 11,285,734 litres or 1.75% during the period from August 1, 2005 to July 31, 2006 over the corresponding period in 2004 and 2005 (see Table 2). Class 1 utilization during the August 1, 2005 to July 31, 2006 period increased by 1,832,849 litres or 0.51% over the same period in 2004 and 2005 (see Table 2). Industrial milk utilization during the 2005/2006 dairy year compared to the 2004/2005 dairy year decreased by 13,118,583 litres or 4.57% (see Table 2).

On March 1, 1997 the Western Milk Pool (WMP) was formed consisting of British Columbia, Alberta, Saskatchewan and Manitoba. Production and sales figures for the WMP from August 1, 2005 to July 31, 2006 are presented in Table 4 of Appendix A. Total production of butterfat in the WMP was 65,988,644 kilograms during the 2005/2006 dairy year (see Table 4). Class 1 milk sales in the WMP during the same period were 899,709,650 litres (see Table 4).

There were 34 dairy plants licensed by the Board to process milk as at July 31, 2006. Licensing statistics are provided in Table 5 of Appendix A.

Going Concern Sales and Other Transfers

There were 45 transfers of Total Production Quota (TPQ) processed during the 2005/2006 dairy year without the use of the quota exchange. Amongst these 45 transactions were 9 partial transfers, 18 family transfers, 9 name changes and 4 merge/splits that accounted for 1,109,302 kilograms of the total kilograms transferred. Going concern sales resulted in 72,464 kilograms of TPQ being transferred. The Board assessed 5,535 kilograms under its assessment policy. Details of TPQ transfers during the 2005/2006 dairy year are shown in Table 6 of Appendix A.

Quota Exchange

Two quota exchanges were run every month except for July as there are no transfers effective August 1. Details of the quota exchange market clearing prices for the 2005/2006 dairy year are given in Table 7 of Appendix A.

Manufactured Milk Quota

Manufactured Milk Quota (MMQ) allocated to British Columbia at the start of the 2005/2006 dairy year was 10,471,749 kilograms of butterfat. After a series of bimonthly adjustments, the province ended the dairy year with 9,465,189 kilograms of MMQ. British Columbia produced 103,023 kilograms of butterfat under the Domestic Dairy Product Innovation Program during the 2005/2006 dairy year. British Columbia's deemed MMQ under the Western Milk Pooling Agreement was 11,093,119 kilograms as at July 31, 2006.

Graduated Entry Program

To provide a major portion of the quota necessary for the Graduated Entry Program (GEP), a transfer assessment policy was introduced in August 1986 for fluid quota and in January 1991 for MMQ. The assessment was reduced from 10% to 5% in April 1995. Effective August 1, 1999 the transfer assessment policy was discontinued for TPQ sold on the quota exchange. During the 2005/2006 dairy year the TPQ transfer assessment remained at 5% for going concern sales and partial transfers. Details of the GEP are provided in Tables 8 and 9 of Appendix A.

Producer Revenue and Milk Composition

During the 2005/2006 dairy year the average producer grossed between $63.67 and $68.59 per hectolitre of within-quota milk. After including the Marketing Costs and Losses Levy refund and the milk quality bonus, the average producer grossed between $64.20 and $69.12 per hectolitre of within-quota milk. Details of monthly revenue, milk composition and prices are summarized in Tables 10 and 11 of Appendix A.

Vendor Audits

Vendors were regularly audited during the 2005/2006 dairy year. As was expected, vendor audits uncovered variances that were characterized as insignificant when examined from the perspective of the total value of milk delivered each month by producers. Audit variances were incorporated into subsequent monthly equalization pools as audit adjustments. A review of the audit adjustments made during the 2005/2006 dairy year as set out in each of the monthly producer equalization pools demonstrates that audit variances have occurred. However, they have not been of a nature where the monthly value for any of the three milk components has been significantly affected.

Appeals to the B.C. Farm Industry Review Board

Mainland Milk Producers

An appeal filed in July 2005 by the Mainland Milk Producers pertained to a decision of the Board to not implement a containment policy for freight charges. The appeal was dismissed in July 2006.

Teamsters Local Union No. 464

Teamsters Local Union No. 464 filed an appeal in September 2005 regarding the Board's tendering process. The B.C. Farm Industry Review Board dismissed the appeal in February 2006.

Feely's Tank Truck Service

An appeal was filed in October 2005 by Feely's Tank Truck Service in response to the outcome of the Board's tendering process. The appeal was dismissed in November 2005.

Milne Dairy

An appeal filed in December 2005 by Lee Milne (Milne Dairy) pertained to the Board's tendering process. The B.C. Farm Industry Review Board dismissed the appeal in August 2006.

Blossom Acres

Martinus and Rita Van Herk (Blossom Acres) filed an appeal in February 2006 in response to the Board's decision to cancel Graduated Entry Program quota. The appeal was dismissed in June 2006.

Blackwell Dairy and Milne Dairy

Appeals filed in March 2006 by Ted Blackwell (Blackwell Dairy) and Lee Milne (Milne Dairy) resulted from notices of assessment for antibiotic positive shipments. Both appeals were dismissed by the B.C. Farm Industry Review Board in August 2006.

Appendix A

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TABLE 1 - Regional Statistics for British Columbia as at July 31, 2006

Region	Number of Producers*	TPQ Allotted (kg)
Fraser Valley	427	17,014,645
Vancouver Island	61	2,353,962
Bulkley Valley	11	202,547
Cariboo	7	211,934
Kootenays	11	501,974
Okanagan	99	2,927,099
Peace River	3	68,529
Total	619	23,280,690

* Includes licensed producers in Class C and Class D Restricted

TABLE 2 - Qualifying Milk Production in British Columbia for the 2005/2006 and 2004/2005 Dairy Years

	PRODUCTION		UTILIZATION CLASS 1		UTILIZATION OTHER CLASSES	
	Total Litres	Daily Average Litres	Total Litres	Daily Average Litres	Total Litres	Daily Average Litres
2005/2006 Totals	633,495,220	1,735,603	359,502,204	984,938	273,993,016	750,666
2004/2005 Totals	644,780,954	1,766,523	357,669,355	979,916	287,111,599	786,607
Volume Change	-11,285,734	-30,920	1,832,849	5,022	-13,118,583	-35,941
Percent Change	-1.75%	-1.75%	0.51%	0.51%	-4.57%	-4.57%

Notes: Table 2 includes milk utilized in Class 1(b)(ii) and Class 1(d), whereas Table 3 does not.
Table 2 does not include milk used for non-fluid purposes produced by Cottage Industry Producer Vendors.

TABLE 3 - Class 1 Milk Sales in British Columbia for the 2005/2006 and 2004/2005 Dairy Years

	2005/2006 Litres	2004/2005 Litres	Volume Change	Percent Change
Homogenized Milk (3.25%B.F.)	63,342,950	64,377,034	-1,034,084	-1.61%
Skim Milk (2%B.F.)	125,985,371	125,157,606	827,765	0.66%
Skim Milk (1%B.F.)	77,540,189	77,141,138	399,051	0.52%
Skim Milk (<0.5%B.F.)	50,281,517	49,107,206	1,174,311	2.39%
Chocolate Milk	8,292,539	9,292,158	-999,619	-10.76%
Buttermilk	3,342,307	3,565,813	-223,506	-6.27%
Light Cream (10%B.F.)	16,383,848	16,006,005	377,843	2.36%
Cream (18%B.F.)	6,373,714	5,226,746	1,146,968	21.94%
Whipping Cream (32%B.F.)	6,732,170	6,586,444	145,726	2.21%
Eggnog	1,131,252	1,060,044	71,208	6.72%
Cordials	1,247	69,319	-68,072	-98.20%
All Products	359,407,104	357,589,513	1,817,591	0.51%

Note: Table 3 does not include milk utilized in Class 1(b)(ii) and Class 1(d), whereas Table 2 does.

TABLE 4 - Western Milk Pool Statistics for the Period from August 1, 2005 to July 31, 2006

	CLASS 1 SALES (LITRES)	% OF CLASS 1 SALES (LITRES)	CLASS 1 SALES PLUS EXCLUSION (LITRES)	AVG. B/F ALL MILK (KG/HL)	CLASS 1 SALES PLUS EXCLUSION (KG)	DEEMED CLASS 1 (KG)	DEEMED INDUSTRIAL (KG)	TOTAL PRODUCTION (KG)
Manitoba	116,020,628	12.90%	120,933,889	3.7672	4,557,363	5,927,739	5,394,169	11,321,908
Saskatchewan	62,922,656	6.99%	65,522,687	3.7841	2,479,910	4,247,140	3,864,845	8,111,985
Alberta	361,264,162	40.15%	370,781,413	3.7348	13,850,756	12,183,903	11,087,177	23,271,080
British Columbia	359,502,204	39.96%	366,870,667	3.7226	13,661,302	12,190,552	11,093,119	23,283,671
TOTAL	899,709,650	100.00%	924,108,656	3.7420	34,549,331	34,549,334	31,439,310	65,988,644

TABLE 5 - Licensing Information for British Columbia

CLASS OF LICENCE	A	B	C	D RESTRICTED	H
ISSUED BETWEEN AUGUST 1, 2005 AND JULY 31, 2006	14	18	648	4	11
CANCELLED BETWEEN AUGUST 1, 2005 AND JULY 31, 2006	1	1	37	0	2
IN EFFECT JULY 31, 2006	13	17	611	4	9
IN EFFECT JULY 31, 2005	15	16	640	4	12

CLASS A LICENCE - VENDORS PROCESSING BOTH FLUID AND NON FLUID MILK PRODUCTS

CLASS B LICENCE - VENDORS PROCESSING ONLY NON FLUID MILK PRODUCTS

CLASS C LICENCE - PRODUCERS ALLOTTED TOTAL PRODUCTION QUOTA

CLASS D RESTRICTED LICENCE - PRODUCERS ALLOTTED TOTAL PRODUCTION QUOTA AND PROCESSING MILK ON THEIR FARM INTO NON FLUID PRODUCTS

CLASS H LICENCE - TRANSPORTERS OF MILK

TABLE 6 - Quota Transfers in British Columbia from August 1, 2005 to July 31, 2006

Quota Exchange	Kilograms
Unused TPQ	436,569
Used TPQ	395,503
Going Concern Transfers	
Unused TPQ	44,192
Used TPQ	28,272
Partial Transfers	
Unused TPQ	23,150
Used TPQ	7,036
Other Transfers	
Family	554,302
Name Changes	256,344
Merge/Splits	268,470
TOTAL ALL TRANSFERS	**2,013,838**

TABLE 7 - Quota Exchange Market Clearing Prices in British Columbia from August 2005 to July 2006

	First Quota Exchange		Second Quota Exchange	
Month	Unused TPQ ($/kg)	Used TPQ ($/kg)	Unused TPQ ($/kg)	Used TPQ ($/kg)
Aug-05	$94.00	N/A*	$95.00	N/A*
Sep-05	$94.00	N/A*	-	N/A*
Oct-05	$93.50	-	-	$85.25
Nov-05	$93.00	-	-	$82.00
Dec-05	$93.00	$83.00	$94.00	$84.00
Jan-06	$94.00	$83.00	$93.00	$82.75
Feb-06	$95.00	$83.00	$96.00	$84.00
Mar-06	$98.00	$86.00	$103.00	$88.50
Apr-06	$107.00	$88.50	$110.00	$88.00
May-06	$113.00	$92.00	$116.00	$95.50
Jun-06	$115.00	$96.50	$112.00	$94.75
Jul-06	N/A**	N/A**	N/A**	N/A**

* No Used TPQ Exchanges in August and September
** No Unused or Used TPQ Exchanges in July

TABLE 8 - Number of Producers Started on the Graduated Entry Program

Year	Fraser Valley	Okanagan	Bulkley Valley	Kootenays	Cariboo	Peace River	Vancouver Island	Total
1996	8	2						10
1997	9	1						10
1998	6	4						10
1999	2	2						4
2000	2							2
2001	4	2	2					8
2002	3							3
2003	3			1				4
2004	2	1						3
2005	3							3

TABLE 9 - Total Production Quota Allotted to Graduated Entry Program Participants

Year	Producers Started on Program	Initial Allotment of Total Production Quota (Kilograms)	Matching Allotment of Total Production Quota (Kilograms)	Total Allotment (Kilograms)
1997	10	29,500	30,431	59,931
1998	10	29,500	32,914	62,414
1999			1,414	1,414
2000			1,599	1,599
2001			1,404	1,404
		Allotment of Restricted Total Production Quota (Kilograms)		
1999	4	28,000		28,000
2000	2	14,000		14,000
2001	8	62,000		62,000
2002	3	21,000		21,000
2003	4	28,000		28,000
2004	3	15,000	4,000	19,000
2005	3	15,000	6,620	21,620

TABLE 10 - Gross Monthly Producer Revenue from August 2005 to July 2006

MONTH	STANDARD HECTOLITRE REVENUE ($/HL)			AVERAGE BC HECTOLITRE REVENUE ($/HL)		
	STANDARD HECTOLITRE	PLUS MARKETING COSTS & LOSSES LEVY REFUND	PLUS QUALITY BONUS	AVERAGE BC HECTOLITRE	PLUS MARKETING COSTS & LOSSES LEVY REFUND	PLUS QUALITY BONUS
Aug-05	64.01	64.29	64.54	63.67	63.95	64.20
Sep-05	65.51	65.79	66.04	66.68	66.96	67.21
Oct-05	65.06	65.34	65.59	67.91	68.19	68.44
Nov-05	63.70	63.98	64.23	67.11	67.39	67.64
Dec-05	64.58	64.86	65.11	68.59	68.87	69.12
Jan-06	64.44	64.72	64.97	66.59	66.87	67.12
Feb-06	64.99	65.27	65.52	67.02	67.30	67.55
Mar-06	66.39	66.67	66.92	68.32	68.60	68.85
Apr-06	64.92	65.20	65.45	66.09	66.37	66.62
May-06	66.19	66.47	66.72	66.21	66.49	66.74
Jun-06	66.73	67.01	67.26	66.39	66.67	66.92
Jul-06	66.08	66.36	66.61	65.55	65.83	66.08

Notes: From Aug-05 to Jan-06 a standard hectolitre contained 3.6000 kg of butterfat, 3.2338 kg of protein and 5.6874 kg of other solids.
From Feb-06 to Jul-06 a standard hectolitre contained 3.6000 kg of butterfat, 3.2307 kg of protein and 5.7242 kg of other solids.
Table 11 contains the average component tests for a hectolitre of milk produced in the province of British Columbia.

TABLE 11 - Monthly Milk Composition and Prices from August 2005 to July 2006

MONTH	AVERAGE COMPONENT TESTS			MILK COMPONENT PRICES		
	BUTTERFAT (KG/HL)	PROTEIN (KG/HL)	OTHER SOLIDS (KG/HL)	BUTTERFAT ($/KG)	PROTEIN ($/KG)	OTHER SOLIDS ($/KG)
Aug-05	3.5807	3.1951	5.7538	9.3973	6.7232	1.4844
Sep-05	3.6863	3.2697	5.7487	9.7656	6.6593	1.5498
Oct-05	3.8174	3.3275	5.7513	9.8559	6.4166	1.5528
Nov-05	3.8644	3.3572	5.7418	9.6569	6.2598	1.5291
Dec-05	3.9065	3.3818	5.7264	9.8314	6.2650	1.5705
Jan-06	3.7790	3.2844	5.7364	9.8320	6.3096	1.5192
Feb-06	3.7835	3.2673	5.7390	9.6061	6.6667	1.5497
Mar-06	3.7658	3.2711	5.7515	9.7588	6.8574	1.5898
Apr-06	3.7090	3.2481	5.7449	9.3939	6.8887	1.5448
May-06	3.6179	3.2043	5.7463	9.5415	7.0624	1.5760
Jun-06	3.5863	3.1997	5.7360	9.5616	7.1719	1.5962
Jul-06	3.5790	3.1893	5.7033	9.3934	7.1749	1.5865